Annexure 13

RANDFONTEIN LOCAL MUNICIPALITY

FIXED ASSET MANAGEMENT POLICY

2016/2017

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ABBREVIATIONS

AM	Asset Management
AMP	Asset Management Plan
ASB	Accounting Standards Board
CFO	Chief Financial Officer
CMIP	Comprehensive Municipal Infrastructure Plan
COGTA	Department of Co-operative Governance and Traditional Affairs
CRC	Current Replacement Cost
DRC	Depreciated Replacement Cost
EPWP	Expanded Public Work Program
EUL	Estimated Useful Life
GIAMA	Government Immoveable Asset Management Act
GRAP	Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MM	Municipal Manager
MSA	Municipal Systems Act
ODRC	Optimised Depreciated Replacement Cost
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
RLM	Randfontein Local Municipality
RUL	Remaining Useful Life
RV	Residual Value
SDBIP	Service Delivery and Budget Implementation Plan
VAT	Value Added Tax

1 PURPOSE OF THIS DOCUMENT

This document indicates the policy of Randfontein Local Municipality for the management of its movable and immovable Property Plant and Equipment (PPE), investment property, intangible, biological assets and heritage assets.

The procedures required to implement this policy are provided in a separate document. The policy commits the municipality to establishing and maintaining an asset register that complies with the latest accounting standards, and managing the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

2 SCOPE

This policy applies to all movable and immovable Property Plant and Equipment (PPE), investment property, intangible, biological assets and heritage assets under the control of the municipality.

3 OBJECTIVES

The objective of this policy is for the municipality to:

- comply with prevailing accounting standards; and
- Apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.

4 BACKGROUND

4.1 CONSTITUTIONAL AND LEGAL FRAMEWORK

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects:

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its Property, Plant and Equipment (PPE) is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal PPE with the Municipal Manager (MM) while the Chief Financial Officer (CFO) is responsible for maintaining the asset register.

The Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its PPE safe.

4.2 ACCOUNTING STANDARDS

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.

As a high capacity municipality, RLM was required to convert to applicable standards of GRAP on 1 July 08. The Accounting Standards Board (ASB) has approved a number of Standards of GRAP. When compiling the asset register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The applicable standards of GRAP are noted in **section 9**.

4.3 MANAGEMENT OF INFRASTRUCTURE ASSETS

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important.

The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several hundred million Rand.

Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- the provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

COGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as potable water, roads etc). These plans are used as inputs into a Comprehensive Municipal Infrastructure Plan (CMIP) that presents an integrated plan for the municipality covering all infrastructures. The arrangements outlined in the COGTA guidelines are further strengthened by the provision of National Treasury's Local Government Capital Asset Management Guidelines. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government Immoveable Asset Management Act (GIAMA)) and SANS 55001: Asset Management – Management Systems – Requirements.

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

5 APPROVAL AND EFFECTIVE DATE

The CFO is responsible for the submission of the Policy to Council to consider its adoption after consultation with the Municipal Manager (MM). Council shall indicate the effective date for implementation of the policy.

6 KEY RESPONSIBILITIES

Municipal Manager

The Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager shall ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with the standard of generally recognized accounting practice;
- That the municipality has and maintains a system of internal control for assets, including an asset register; and
- The Directors and their teams comply with this policy.

As Accounting Officer of the municipality, the Municipal Manager shall be the principal custodian of the entire municipality's assets, and shall be responsible for ensuring that this policy is effectively applied on adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the Chief Financial Officer (CFO) and Directors, of procedures to effectively and efficiently apply this policy.

This policy should be applied with due observance of the municipality's policy with regard to delegated powers. Such delegations refer to delegations between the MM and other responsible officials as well as between Council and the Executive Mayor and the Council and the MM. All delegations in terms of this policy must be recorded in writing.

In accordance with the MFMA, the MM of the municipality and all designated officials are accountable to him / her. The MM is therefore accountable for all transactions entered into by his / her delegates. The overall responsibility for asset management lies with the MM. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing. The MM may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

Chief Financial Officer

The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' assets are safeguarded and maintained.

The CFO, as one of the Directors of the municipality, in exercising their financial responsibilities shall also ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilised effectively, efficiently, economical and transparently;
- Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;

- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilised through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets; and
- This policy and support procedures are established, maintained and effectively communicated.

In terms of section 82 read with section 81(1)(e) of the MFMA the CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be responsible for the fixed asset register of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

Directors

Directors (the managers directly accountable to the Municipal Manager) shall ensure that:

- The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

The Directors may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

Section Manager: Information Technology

Section Manager: Information Technology shall ensure that:

- The functionality of the asset register system is maintained and that the data is secure.

7 POLICY AMENDMENT

This policy should be reviewed annually to ensure continued compliance with the relevant legislation and accounting standards. Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the MM and respective Directors. The recommendations of the CFO shall be considered for adoption by Council.

8 RELATIONSHIP WITH OTHER POLICIES

This policy, once effective, will replace the pre-existing Fixed Asset Management Policy.

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Accounting Policy;
- Asset Disposal Policy.
- Budget Implementation and Monitoring Policy;
- Credit Control and Debt Collection Policy;
- Delegation of Powers;

- Disaster Management Policy;
- Enterprise Risk Management Policy;
- Funding. Borrowing and Reserves Policy;
- Infrastructure Investment Policy;
- Insurance Policy;
- Long Term Financial Planning Policy;
- Managing Electricity and Water Distribution Losses;
- Property Rates Policy;
- Supply Chain Management Policy; and
- Tariff, Indigent and Free Basic Services Policy

9 REFERENCES

The following references were observed in compiling this document:

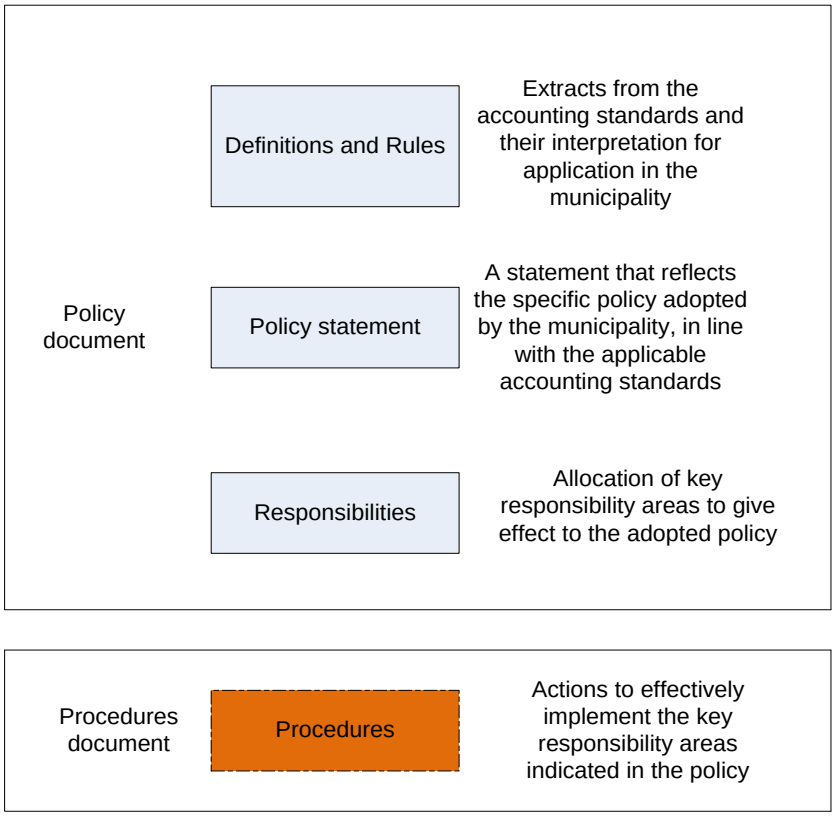
- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Disaster Management Act, 2002
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- MFMA Circular 18 & 44
- Local Government Capital Asset Management Guidelines, National Treasury, 2008
- Government Gazettes (30013 & 31021)
- Generally Recognised Accounting Practice as issued by the Accounting Standards Board (1-14, 16, 17, 19, 21, 23-27, 31 and 100-104)
- Interpretations of the standards of GRAP issued by the Accounting Standards Board (ASB) (IGRAP 1- 17)
- Directives issued by the ASB

- Municipal transfer and disposal regulations, Government Gazette no.31346
- Government Gazette, 30 May 2005, No. 27636 on disposal
- Accounting guideline issued by National Treasury relating to intangible assets

10 POLICY FORMAT

Figure 1 gives an overview to the format of presentation of this policy document, and how it links to a separate document that provides the procedures.

Figure 1 - Interaction between the policy and the procedures


Policy document
Definitions and Rules
Extracts from the accounting standards and their interpretation for application in the municipality
Policy statement
A statement that reflects the specific policy adopted by the municipality, in line with the applicable accounting standards
Responsibilities
Allocation of key responsibility areas to give effect to the adopted policy
Procedures document
Procedures
Actions to effectively implement the key responsibility areas indicated in the policy

11 POLICY FOR FIXED ASSET ACCOUNTING

11.1 RECOGNITION

(a) Definitions and rules

Asset

An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.

Fixed Asset

A fixed asset (also referred to as a “non-current asset”) is an asset with an expected useful life greater than 12 months.

PPE

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes; and are expected to be used during more than one reporting period. This includes items necessary for environmental or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment is broken down into groups of assets of a similar nature or function in the municipality’s operations for the purposes of disclosure in the financial statements.

Immovable PPE

Immoveable assets are fixed structures such as buildings, land and infrastructure as well as servitudes associated with such fixed structures. Plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immoveable asset (though it may be temporarily removed for repair).

Movable PPE

Movable assets are the stock of equipment owned or leased by the municipality such as office equipment, vehicles and mobile plant.

Biological Assets

Biological assets are living animals or plants as per the definition in the GRAP on Agriculture.

Investment property (GRAP 16)

Investment property is defined as property (land and/or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). An example of investment property is office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

Intangible assets

Intangible assets are defined as identifiable non-monetary assets, without physical substance. Examples are licenses or rights, (such as water licenses), servitudes and software.

An asset meets the criterion of being identifiable in the definition of an intangible asset when it:

a) is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
b) arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable and separable from the municipality or from other rights and obligations.

Capital Spares (Major Spare Parts)

Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. they are not usually considered fixed assets) and are expensed when consumed. However, major spares that are available for use and constitute an entire or significant portion of a component type, or a specific component, defined in the PPE asset hierarchy are

considered major spare parts and are recognised as an item of PPE if they are expected to be used for more than one period or they can only be used in connection with an item of PPE.

Major inspections

A condition of continuing to operate an item of PPE may be to perform regular major inspections for faults regardless of whether parts of the item are replaced (for example, Occupational Health and Safety Act no. 85 of 1993 requires lifting equipment to be inspected once a year). When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the cost of an existing inspection component may be used to estimate the cost of a future similar inspection.

Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

Useful Life

Useful life is defined as the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.

Control

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of others to that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not absolute.

Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Director.

Economic benefits

Economic benefits are derived from assets that generate net cash inflows.

Service Potential

An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

Leased assets (GRAP 13)

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the municipality) the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases are categorised into finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may not eventually be transferred (substance over form). Where the risks and rewards of ownership of the assets are substantially transferred to the municipality, the lease is regarded as a finance lease and the asset recognised by the municipality. Where there is no substantial transfer of risks and rewards of ownership to the municipality, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis (straight line basis over the lease term).

Asset custodian

The department that controls an asset, as well as the individual (asset custodian) that is responsible for the operations associated with such asset in the department, is identified by the respective Director, recorded, and communicated on recognition of the asset.

Reliable measurement

Items are recognised if they possess a cost or fair value that can be reliably measured in terms of this policy.

(b) Policy statement

The municipality shall recognise all movable and immovable assets under the control of the municipality at the time of adoption of this policy and the development of new, upgraded and renewed fixed assets shall be capitalised in compliance with prevailing accounting standards on an on-going basis.

(c) Responsibilities

- Every Director shall ensure that all fixed assets under their control are correctly recognised as fixed assets.
- The CFO, in consultation with the MM and Director, shall determine effective procedures for the recognition of existing and new immovable assets.
- The CFO shall keep a lease register with the following minimum information: name of the lessor, type of lease (operating or finance), description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.

11.2 CLASSIFICATION OF FIXED ASSETS

(a) Definitions and rules

Fixed asset categories

The accounting categories of fixed assets are as follows:

- Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations, that is shown as a single class for the purposes of disclosure in the financial statements);
- Heritage assets;

- Biological assets;
- Intangible assets;
- Capital finance lease assets; and
- Investment property.

Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the municipality's operations. The total balance of each class of assets is disclosed in the notes to the financial statements.

PPE Asset Hierarchy

An asset hierarchy is adopted for PPE which enables separate accounting of parts (or components) of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.

PPE: Infrastructure

Infrastructure assets are immoveable assets which are part of a network of similar assets that jointly provide service potential.

PPE: Community Property

Community property assets are immoveable assets contributing to the general well-being of the community, such as community halls and recreation facilities.

PPE: Building Property

PPE building property assets are buildings that are used for municipal operations such as administration buildings and rental stock or housing not held for capital gain.

PPE: Other Assets

Movable assets are by nature stand-alone assets which are not directly attached or associated with an item of immovable assets and are utilised in an enabling or assisting role on a day-to-day basis.

Heritage assets

Heritage assets are assets of cultural, historic or environmental significance and are held indefinitely for the benefit of present and future generations, such as monuments, nature reserves, and works of art. Some heritage assets have more than one purpose, e.g. a historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The asset will be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If a significant portion is used for production, administrative purposes or supply of services or goods, the asset shall be accounted for in accordance with the Standard of GRAP on PPE.

Biological Assets

Biological assets are living animals or plants as per the definition in the GRAP on Agriculture.

Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software.

Servitudes

Where municipalities establish servitudes as part of the registration of a township, the associated rights are granted in statute and are specifically excluded from the standard on intangible assets. Such servitudes cannot be sold, transferred, rented or exchanged freely and are not separable from the municipality. Consequently such servitudes are not recognised in the asset register.

Servitudes that are created through acquisition (including by way of expropriation or agreement) are recognised as intangible assets at cost. The municipality may include the servitude in the cost of the PPE if it is essential to the construction or operation of the asset (such as in the case of pipes).

Investment property

Investment property is defined as property (land and/or a building, or a part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). An example of investment property is office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

A property is only classified as investment property if the main purpose and most significant use of the property is to earn rental or for capital appreciation. For example, when a municipality owns a building, mainly used for the delivery of social housing but rents out a floor of the building to shops, banks and other external parties, the building should be accounted for as property, plant and equipment as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.

(b) Policy statement

Asset hierarchies shall be adopted for each of the immovable PPE asset classes, separately identifying items of PPE at component level that are significant from a financial perspective (material effect on depreciation) or strategic perspective (for risk management or asset replacement strategies / or separate significant components), and conversely, where applicable, grouping items that are relatively insignificant. Investment Property and Intangible assets are not required to be componentised.

PPE shall be disclosed in the financial statements at the category level.

A committee to be nominated by Council will consider the recognition of assets as heritage assets and motivate their recommendation for adoption by Council.

Annexure A indicates the hierarchy structure for immovable assets while **Annexure B** indicates the hierarchy structure for movable assets.

(c) Responsibilities

- The CFO shall ensure that the classification of fixed assets adopted by the municipality complies with the statutory requirements.
- The CFO shall consult with the MM and Director responsible for assets to determine an effective and appropriate asset hierarchy for each class of immovable PPE to component level and record such in the Asset Management procedures document.
- Every Director shall ensure that all fixed assets under their control are classified correctly within the classification adopted by the municipality.
- Every Director shall advise the CFO when assets should be re-classified.

11.3 IDENTIFICATION

(a) Definitions and rules

Immovable asset coding

An asset coding system is the means by which the municipality is able to uniquely identify each immovable asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

Barcoding system

A barcoding system will be used for movable assets as the means by which the municipality is able to uniquely identify each movable asset in order to ensure that it can be accounted for on an individual basis, this will also assist with the verification process of movable assets.

(b) Policy statement

A coding system shall be adopted and applied that will enable each immovable asset (with PPE at the lowest level in the adopted asset hierarchy) to be uniquely and readily identified. Similarly a barcoding system shall be adopted for movable assets.

(c) Responsibilities

- The Municipal Manager shall develop and implement an asset coding system in consultation with the CFO and other Directors to meet the policy objective.
- Directors shall ensure that all the immovable assets under their control are correctly coded.
- Directors shall ensure that all the movables assets under their control are barcoded.

11.4 ASSET REGISTER

(a) Definitions and rules

Asset register

An asset register is a database with information relating to each asset. The fixed asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

Updating data in the asset register

The fixed asset register is updated by an Asset Accountant only when authorised and instructed to. The Asset Accountant is precluded from being a custodian of any asset.

(b) Policy statement

A fixed asset register shall be established to provide the data required by the municipality to effectively apply the applicable accounting standards, as well as other data considered by the

municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall be updated and reconciled to the general ledger on a regular basis, which will be reconciled to the financial statements at year end.

(c) Responsibilities

- The CFO shall define the format of the asset register in consultation with the Municipal Manager, and the respective Director, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.
- Directors shall provide the CFO with the data required to establish and update the asset register in a timely fashion. They shall sign-off on all information supplied to update the register and remain responsible for all assets within their directorates.
- The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- The CFO shall ensure proper application of the control procedures.

11.5 MEASUREMENT AT RECOGNITION

(a) Definitions and rules

Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is acquired through a non-exchange transaction (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as on recognising PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

Measurement at recognition of investment property

Investment property will be measured at cost including transaction cost at initial recognition. However, where an investment property was acquired through a non-exchange transaction (i.e.

where the investment property was acquired for no or nominal value), its cost is its fair value at the date of acquisition.

Measurement at recognition of intangible assets

Intangible assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

Measurement at recognition of heritage assets

Heritage assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

If the municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements as follows:

- A description of the heritage asset or class of heritage assets.
- The reason why the heritage asset or class of heritage assets could not be measured reliably.
- On disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognised in the statement of financial performance.

Measurement at recognition of biological assets

Biological assets shall be measured on initial recognition and at each reporting date at its fair value less costs to sell.

Fair value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market based evidence by appraisal can be used where there is an active and liquid market for assets (for example land and some types of plant and equipment). In the case of specialised buildings (such as community

buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach may be used to identify the fair value. The appraisal of the fair value of assets is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification and has appropriate knowledge and experience in valuation of the respective assets. A Civil Engineer is considered to have the relevant professional qualification in order to determine the CRC and DRC of specialised buildings and infrastructure

Depreciated replacement cost

The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

DRC = ((CRC – RV) x RUL/EUL) + RV

Replacement costs are “brown field”, reflecting cost variances over and above “green-field” modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as “supply-and-demand”, economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.

The expected useful life and residual values are estimates informed by industry norms and actual asset performance of the municipality and at other similar municipalities. The remaining useful life is informed by the expected useful life, the age of the component since becoming available for

use, its condition, and any committed plans for replacement, rehabilitation, upgrading or de-commissioning.

Cost of an item of PPE

The capitalisation value comprises of:

(i) the purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and
(ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus
(iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

VAT is excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalise the cost of the asset together with VAT).

Directly attributable costs

Directly attributable costs are defined as:

- cost of employee benefits arising directly from the construction or acquisition of the item.
- costs of site preparation;
- initial delivery and handling;
- installation and assembly costs;
- commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to its current condition and location);
- professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes); and
- Proper transfer taxes (in the case of all asset classes).

Costs associated with heritage assets

Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the cost of the asset. Such costs should be recognised in the carrying amount of the heritage asset as incurred.

Changes in the existing decommissioning or restoration cost included in the cost of an item

Most PPE are considered assets in perpetuity in that they will generally be renewed or replaced at the end of their useful life. In the event that there is a statutory (and material) obligation to decommission or restore an asset at the end of its useful life (such as at a landfill site), provision has to be made for such costs. Changes in the measurement of an existing decommissioning cost or restoration cost as a result of changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, should be treated as follows:

1. If the cost model is used -
    - Changes in the liability shall be added to or deducted from the cost of the related asset.
    - If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.
    - If the adjustment results in an addition to the cost of an asset, the municipality should consider whether this is an indication that the carrying amount may not be recoverable. In this case the municipality should test the asset for impairment.

2. If the revaluation model is used -
    - A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognised in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the surplus or deficit; and
    - an increase in the liability shall be recognised in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of asset.
    - If the decrease in liability exceeds the carrying amount that would have been recognised if the asset has been carried under the cost model, the excess shall be recognised immediately in the surplus or deficit.

- If the change in liability is an indication that the asset may have to be re-valued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets as discussed above. If a revaluation is necessary, all assets of that class shall be revalued.
- The change in the revaluation surplus arising from the change in the liability shall be separately identified and disclosed in the face of the statement of changes in net assets.

Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

Finance leases

A finance lease is recognised by the municipality (the lessee) at the commencement of a lease term as an asset and liability in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

Self-constructed PPE

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that are constructed by the municipality should be recorded in the asset register and each component that is part of this asset should be depreciated over its estimated useful life for that category of asset.

Proper records should be kept such that all costs associated with the establishment of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are aggregated and capitalised in the asset register.

Construction of future investment property

If property is developed for future use as an investment property, such property shall in every respect be accounted for as investment property.

Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest expense calculated using the effective interest method, finance charges in respect of finance leases and service concession arrangements and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs. There are two treatments of borrowing costs allowed under GRAP 5:

- Benchmark treatment - recognise all borrowing costs as an expense in the period in which they are incurred; or

- Allowed alternative treatment - recognise borrowing costs as an expense in the period in which they are incurred, except to the extent that they are capitalised. Borrowing costs may be capitalised if they are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset.

Where an entity adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity.

Where the allowed alternative treatment is applied, the following borrowing costs are eligible for capitalisation:

- To the extent that the municipality borrows funds specifically for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for

capitalisation as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings.

- To the extent that the municipality borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that a municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Deferred payment

The cost of an asset is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent (the total cost price is discounted to the asset's present value as at the transaction date) and the total payment is recognised as an interest expense over the period of credit.

(b) Policy statement

PPE, heritage assets, intangible assets and investment property that qualify for recognition shall be capitalised at cost**.** Borrowing costs will be expensed under the benchmark treatment as per GRAP 5. Biological assets that qualify for recognition shall be capitalised at fair value less costs to sell.

In cases where complete cost data is not available or cannot be reliably linked to specific assets:-

- Where PPE assets were acquired before the GRAP implementation date or where they were acquired through a non-exchange transaction, the fair value of PPE infrastructure, community facilities, building property and movable assets shall be adopted on the basis of depreciated replacement cost.
- If the cost of heritage assets cannot be measured reliably, this should be disclosed in the notes to the financial statements together with a description of the nature of the asset.

- Investment property and intangible assets shall be measured at fair value on date of acquisition. If no fair value can be allocated to the intangible asset, the asset will not be recognised as an asset.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Directors, shall determine effective procedures for the capitalisation of fixed assets on recognition.
- Every Director shall ensure that all fixed assets under their control are correctly capitalised.
- Every Director shall advise the CFO of any deferred payments from the municipality, providing the relevant details of such.

11.6 MEASUREMENT AFTER RECOGNITION

(a) Definitions and rules

Options

Accounting standards allow measurement after recognition of assets as follows:

- PPE, heritage assets and intangible assets: on either a cost or revaluation model
- Biological assets: fair value less costs to sell; and
- Investment Property: either cost model or the fair value model.

Different models can be applied, providing the treatment is consistent per asset class.

Cost model

When the cost model is adopted, a fixed asset is carried after recognition at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

When the revaluation model is adopted an asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with

sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued.

If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

When an asset is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- Restated proportionately with the change in the gross carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such asset before the revaluation in question may be transferred from the Revaluation Reserve to the municipality's Accumulated Surplus/Deficit Account. *If this option is selected, an adjustment of the aggregate transfer is made at the end of each financial year.*

Investment property

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The gain or loss from the change in fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the reporting date. Investment property shall be valued on an annual basis when the fair value model is adopted. All fair value adjustments shall be included in the surplus or deficit for the financial year. If a municipality selects the cost model to measure all of its investment property, it does so in accordance with the Standard of GRAP on Property, Plant and Equipment, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

Statutory inspections

The cost of a statutory inspection that is required for the municipality to continue to operate PPE is recognised at the time the cost is incurred, and any remaining carrying amount of the cost of the previous inspection is de-recognised.

Major inspection

Major inspections will be recognised at the value of the major inspection

Expenses to be capitalised

Expenses incurred in the enhancement of PPE (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of PPE are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of PPE that ensures that the useful operating life of the asset is attained, are considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

Spares

The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable PPE asset sub-category.

(b) Policy statement

Measurement after recognition shall be on the following basis:-

- Immoveable PPE: cost model.
- Movable PPE: cost model.
- Heritage assets: revaluation model.
- Investment property: fair value model.
- Intangible assets: cost model.
- Biological assets: fair value less cost to sell.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Directors, shall determine effective procedures for the ongoing capitalisation of fixed assets after recognition.
- Every Director shall ensure that all capital expenses associated with PPE under their control are correctly capitalised.
- Every Director shall ensure that revaluations and fair value adjustments are conducted where applicable to assets under their control.

11.7 DEPRECIATION

(a) Definition and rules

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life. The amortisation of intangible assets is identical.

Land and servitudes are considered to have unlimited life; therefore they are not depreciated. Heritage assets and investment property are also not depreciated.

Depreciable amount

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Residual value

The residual value is the estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The residual values of fixed assets are indicated in **Annexure C and D** in the form of a percentage of the take-on cost. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the revalued cost.

Intangible assets with an indefinite useful life

An intangible asset with an indefinite useful life will not be amortised. Impairment testing shall be performed on these assets on an annual basis and whenever there is an indication that the assets might be impaired, comparing its recoverable amount with its carrying amount.

Depreciation method

Depreciation of PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of future economic benefits or service potential, and should be reviewed annually where there has been a change in the pattern of consumption.

Remaining useful life

The remaining useful life of a depreciable PPE asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

The remaining useful life of all depreciable immovable PPE assets at initial recognition is the same as the expected useful life indicated in **Annexure C**. These figures have been established

using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions, and operating conditions), the life-cycle strategy of the municipality, potential technical obsolescence, and any legal limits on the use of the immovable assets. The remaining useful life of all depreciable movable PPE assets that are new, or are considered to have been renewed, at initial recognition is the same as the expected useful life indicated in **Annexure D**.

Annual review of remaining useful life

The remaining useful lives of depreciable PPE are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments (as contemplated in **Section 11.8** of this policy). Depreciation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

Depreciation charge

Depreciation starts once an asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an assets ceases at the date the asset is derecognised.

Depreciation is initially calculated from the day when an item of PPE is acquired or – in the case of construction works and plant and machinery – the day in which the PPE is available for use, until the end of the calendar month concerned. Thereafter, depreciation charges are calculated monthly.

Carrying amount

The carrying amount is the cost price / fair value amount after deducting any accumulated depreciation and accumulated impairment losses.

Capital spares

The production unit method of depreciation is applied to capital spares while in stores as this best reflects the pattern of use. As capital spares are put into use they will be reclassified to the appropriate asset class and deprecated accordingly.

Finance lease

Depreciable assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17. If there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. If there is certainty that the municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the asset's useful life.

(b) Policy statement

All PPE, except land and heritage assets, shall be depreciated over their remaining useful lives. All intangible assets, other than intangibles with an indefinite useful life, shall be amortised over their remaining useful lives. Capital spares held in storage will be depreciated using the unit of production method. The method of depreciation / amortisation shall be reviewed on an annual basis, though the straight line basis shall be used in all cases except capital spares (for which the production method will be used) unless Council determines otherwise. Servitudes, Investment Property and biological assets shall not be depreciated. The existence, remaining useful lives and residual values of fixed assets shall also be reviewed at each reporting date.

Depreciation or amortisation is initially calculated from the day when a fixed asset is acquired or – in the case of construction works and plant and machinery – the day in which the fixed asset is available for use.

(c) Responsibilities

- The CFO shall ensure that a budgetary provision is made for the depreciation of PPE under their control in the ensuing financial year, in consultation with the Directors.
- The CFO shall indicate a fixed annual date for the review of the remaining useful life of PPE under the control of the respective Directors.

- Every Director shall annually review the existence, remaining useful life as well as the expected useful life and residual values stated in **Annexures C and D** and the depreciation method of PPE that are under their control and motivate to the Municipal Manager and CFO any adjustments if these are required, in the judgement of the Department Head. Changes should not be made on a continuous basis because the accounting principle of consistency would be violated.
- The CFO shall report changes made to the remaining useful life of PPE in the asset register to the Municipal Manager and Council.
- The CFO shall ensure that depreciation charges are debited on a monthly basis and that the fixed asset register is reconciled with the general ledger.

11.8 IMPAIRMENT

(a) Definition and rules

Impairment

Impairment is defined as the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Indications of impairment

The municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators:

I. External sources of information:

- decline or cessation in demand;
- Significant long-term changes in the technological, legal or government policy environment;
- the carrying amount of the net assets of the entity is more than its market capitalisation;

- market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; or
- a halt in construction could indicate an impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.

ii. Internal sources of information:

- evidence of physical damage;
- evidence of obsolescence;
- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected to be used, including an asset becoming idle, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
- the actual net cash flow or operating profit or loss flowing from an asset are significantly worse than those budgeted;
- a significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss, flowing from the asset; or
- operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

iii. Other indications, such as loss of market value.

Impairment of projects under construction

In assessing whether a halt in construction would trigger an impairment test, it should be considered whether construction has simply been delayed or postponed, whether the intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

Intangible assets

The municipality must test all intangible assets associated with PPE not yet available for use or which have an indefinite useful life for impairment. This impairment test may be performed at any time during the reporting period provided it is performed at the same time every year.

The most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

- the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
- based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

Investment property on the fair value model

Investment property that is measured at fair value is specifically excluded from the scope of GRAP 21 and GRAP 26 (impairment standards). Any impairment would be reflected in the annual review of fair value.

Recoverable amount

Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset and also consider adjustment of the remaining useful life, residual value, and method of depreciation.

Impairment loss

An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (smallest group of assets that generate cash inflows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

Non-cash-generating units

Non-cash-generating units are those assets (or group of assets) that are not managed with the objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit. The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use. It may be possible to determine the fair value even if the asset is not traded in an active market. If there is no binding sales agreement or active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount that an entity could obtain. However, sometimes it will not be possible to determine the fair value less cost to sell because there is no basis for making reliable estimates of the amount obtainable. For non-cash generating assets which are managed on an on-going basis to provide specialised services or public goods to the community, the value in use of the assets is likely to be greater than the fair value less cost to sell. In such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit/asset is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);
- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or
- the service units approach (which could be used for example where a production units model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired – this will normally be the case unless there has been a significant event.

Cash-generating units

Cash-generating units are those assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Managing an asset to generate a “commercial return” indicates that an entity intends to generate positive cash inflows from the asset (or from part of the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in managing the asset. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction. If there is no binding sale agreement but an asset is traded in an active market, fair value is the asset's market price. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that the municipality could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach is generally used to identify the fair value. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and net cash flows to be received or (paid) for the disposal of the assets at the end of its useful life, including factors to reflect risk in the respective cash-flows and the time value of money.

Judgement

The extent to which the asset is managed with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be managed with the objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases it may not be clear whether the objective of managing an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that the asset is a non-cash-generating- or a cash-generating asset. Judgement is needed in these circumstances.

Recognition of impairment

The impairment loss is recognised as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

When no future economic benefit is likely to flow from an asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Statement of Financial Performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of PPE, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/ de-recognised.

Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in surplus or deficit.

(b) Policy statement

The municipality considers itself an entity whose objective is to provide goods and services for community or social benefit and manages its assets as such. Where positive cash flows are generated, these are with the view to support the objective of providing goods and services for community or social benefit rather than for financial return to equity holders and generally do not

reflect the risks involved with managing the assets. Consequently the default impairment treatment for the PPE and associated intangible assets of the municipality is that of non-cash generating assets. .

In cases where it can be reliably demonstrated that an asset is managed with the objective of generating a commercial return (that it is deployed in a manner consistent with that adopted by a profit oriented entity, that the municipality intends to generate positive cash flows from the asset and earns a return that reflects the risk involved in managing the asset), the municipality applies the impairment treatment for cash-generating assets. The municipality will develop criteria so that it can exercise that judgement consistently in accordance with the definition of cash-generating assets.

Impairment of fixed assets shall be recognised as an expense in the Statement of Financial Performance when it occurs or at least at every reporting date. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

(c) Responsibilities

- The CFO shall indicate a fixed annual date for the review of any impairment that may have occurred on fixed assets under the control of the respective Directors.
- The Directors shall review any impairment on the PPE under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the performance of these assets. The Director shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairments that need to be recognised on such assets.
- The CFO shall ensure that the fixed asset register is updated with the information received, relating to the impairment, from the financial management system where the impairment journals have been processed.
- The CFO shall report changes made to the carrying values of these assets in the asset register to the MM and Council.

11.9 DE-RECOGNITION

(a) Definition and rules

Disposal

"Disposal" in relation to a capital asset, includes -

- the demolition, dismantling or destruction of the capital asset; or
- any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership;

Exempt assets

Capital assets transferred to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework in terms of the Municipal Asset Transfer Regulations.

Non-exempt assets

Assets other than exempt assets.

De-recognition

Assets are derecognised on disposal (including disposal through a non-exchange transaction) or when no future economic benefits or service potential are expected from its use or disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be derecognised until the obligations under the potential liabilities have been settled.

The carrying amount of the asset and the net disposal proceeds (or cost of de-commissioning and/or disposal of the asset) shall be included in the surpluses or (deficits) for the year when the item is derecognised.

PPE that is associated with the provision of basic services cannot be disposed without the approval of Council.

Government Gazette no.31346, Municipal asset transfer regulations, sets out the regulations regarding municipal asset transfers and disposals, for example type of assets that need approval to be disposed or transferred, timeframes, possible public participation requirements, considerations in approving the transfer or disposal and Council approval. Read in conjunction with the Municipal Finance Management Act (MFMA) it is clear that a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services unless that transfer is to an organ of state, and the following conditions must be met:

- Ownership in the capital asset (including replacements, upgrading and improvements made by the organ of state) must immediately revert to the municipality should the organ of state for any reason cease to or is unable to render the service;
- The organ of state may not without the written approval of the municipality:
- Transfer, dispose of or encumber the capital asset (including replacements, upgrading and improvements made by the organ of state) in any way;
- Grant a right to another person to use, control or manage the capital asset (including replacements, upgrading and improvements made by the organ of state);
- The transfer agreement must reflect the conditions above; and
- The organ of state must demonstrate the ability to adequately maintain and safeguard the asset.

If the combined value of any non-exempt capital assets a municipality intends to transfer or dispose of in any financial year exceeds 5% of the total value of its assets, as determined from its latest available audited AFS, a public participation process must be conducted to facilitate the determinations of the municipal council, in relation to all the non-exempt capital assets proposed to be transferred or disposed of during the year.

Council may delegate the following powers and responsibilities to the MM:

- The decision as to whether the non-exempt capital asset is needed to provide a basic service;

- The power to approve in-principle that the non-exempt capital asset may be transferred or disposed of; and
- The authority to approve in-principle of the granting of a right to use a capital asset. This delegation does not extend however, to cover long-term high-value transactions.

Disposal of fixed assets should be at fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent (the total proceeds discounted to the present value as at the transaction date). The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

Disposal Management System

An effective system of disposal management for disposal or letting of assets, including unserviceable, redundant or obsolete assets, must be provided for in the Supply Chain Management Policy.

This must specify the ways in which assets may be disposed of, including by:

- transfer the asset to another organ of state in terms of a provision of the MFMA enabling the transfer of assets;
- transferring the assets to another organ of state at market related value or, when appropriate, free of charge;
- selling the asset; or
- destroying the asset.

PPE may be sold only at market related prices except when the public interest or the poor demands otherwise. When assets are traded in for other assets, the highest possible trade-in price must be negotiated.

Revaluation model

The revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such immovable asset before the revaluation in question may be transferred from the Revaluation Reserve to the

municipality's Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of each financial year.

(b) Policy statement

Assets for which no future economic benefits or service potential are expected shall be identified by respective departments and methods of disposal and the associated costs or income considered and approved by Council. The carrying amount of the asset shall be de-recognised when no future economic benefits or service potential are expected from its use or its disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be derecognised until the obligations under the potential liabilities have been settled.

(c) Responsibilities

- The Municipal Manager, in consultation with the CFO and other Directors shall formulate norms and standards from the replacement of all fixed assets.
- Assets that are replaced in the nominal course of the life-cycle renewal should be de-recognised and removed from the asset register. The CFO shall, in consultation with the Directors, identify fixed assets that are replaced or renewed on a regular basis in the course of on-going life-cycle management, and recommend standardised disposal arrangements for the approval of the MM, Council and the disposals committee. The Directors shall report to the CFO and MM at the end of each financial year on the assets disposed in accordance with the standard arrangements.
- The MM may authorize disposal of non-service related assets up to R500 000 without council approval.
- Fixed assets shall be derecognised only on the recommendation of the Director of the department controlling the asset, and with the approval of the Disposal Committee. Where disposals for the year exceed 5% of the value of the total asset value, public participation is required for consideration of Council in approving the disposal or transfer.
- Every Director shall report to the CFO to confirm fixed assets which such Director wishes to have de-recognised, stating in full the reason for such recommendation, indicating whether

or not the assets are associated with the provision of basic services. The CFO shall consolidate all such reports, and shall promptly make a submission to Council with a copy to the Municipal Manager on the fixed assets to be de-recognised, the proposed method of disposal (including, where applicable, making safe and preventing misuse), and the estimated cost or income from such disposal. Council shall consider the submission for adoption. Where disposals for the year exceed 5% of the value of the total asset value, public participation is required for consideration of Council in approving the disposal or transfer.

11.10 INSURANCE

(a) Definition and rules

Insurance provides selected coverage for the accidental loss of asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The municipality can however elect to insure certain infrastructure risks, though approval must be obtained from the Council. The CFO must conduct a risk assessment of all assets and after considering the risks involved, report to Council, which assets must be insured. The risk assessment must be based on a loss probability analysis and if there is no capacity within the municipality to conduct the analysis, the CFO should be authorised to obtain external professional assistance.

The municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the departments or votes after having received a list of fixed assets and insurable values of all relevant fixed assets from the respective Directors concerned. This will be reflected in the accumulated surplus and will be cash backed.
Assets must be insured internally or externally and coverage must be based on the loss probability analysis. All insurance claims must be assessed by an official, charged with the responsibility for the insurance of assets, to determine whether the damage to the assets can be recovered from possible third parties involved.

If the damage was caused by an identifiable third party the CFO should compile a report advising the Municipal Manager of the facts thereof and any possible further action.

(b) Policy statement

The municipality shall adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster. The Municipal Manager shall decide on insurance cover for fixed assets each financial year based on consultation with the CFO, and advise Council accordingly. The Municipal Manager shall ensure that all Municipal buildings are insured at least against fire and allied perils.

(c) Responsibilities

- The MM shall consult with the CFO on the basis of insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the asset concerned. The approach shall take due cognisance of the budgetary resources of the municipality, and where applicable asset classes shall be prioritised in terms of their risk exposure and value.
- The Municipal Manager shall advise Council on the insurance approach taken.
- In the event that the CFO is directed by Council to establish a self-insurance reserve, the CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.
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12 POLICY FOR SAFEGUARDING

(a) Definitions and rules

The municipality is responsible for applying controls and safeguards to ensure that fixed assets are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of assets must be physically verified from time-to-time, and measures adopted to control their use, as follows:

- Above ground assets should be verified for existence and any changes in condition at regular intervals. These inspections should be formally recorded and signed off and, where possible, shall be worked into the routine maintenance inspections.

Every Director shall at least once during every financial year undertake a comprehensive verification of all movable PPE controlled by or used by the department concerned. Every Director shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such verification.

The municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

(b) Policy statement

An asset safeguarding plan shall be prepared for all fixed assets indicating measures that are considered effective to ensure that all assets under the control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets.

The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of fixed assets shall be verified annually (in line with the assessment of impairment).

(c) Responsibilities

- Each Director shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the fixed assets under the control of their respective departments, indicating the budget required.
- The CFO shall confirm the available budget, and in consultation with the respective Director, determine the impact of any budget shortfall. The CFO shall report the impacts to

the Municipal Manager for review, and advise Council. Each Director shall implement the safeguarding plan within the resources made available.

- Each Director shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of immovable assets under the control of their respective departments at the review date.
- Every Director shall at least once during every financial year undertake a comprehensive verification of all movable PPE controlled by or used by the department concerned.
- Every Director shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such movable asset verification.
- The Director shall establish procedures for the effective management of movement of assets from one location to another (both internal and external), transfers of assets from one custodian to another, and reporting damage, in consultation with the CFO.
- Director shall enforce the application of the procedures for controlling the movement of assets as prescribed by the CFO.
- Director shall ensure that rented assets shall not be moved, unless by duly authorised staff.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Director.
- The Municipal Manager must report criminal activities to the South African Police Service.

13 POLICY FOR LIFE-CYCLE MANAGEMENT OF IMMOVABLE PPE ASSETS

(a) Definitions and rules

Service delivery

Immovable PPE assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance.

Asset management

The goal of asset management of immovable PPE is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles are:

- taking a life-cycle approach;
- developing cost-effective management strategies for the long-term;
- providing a defined level of service and monitoring performance;
- understanding and meeting the impact of growth through demand management and infrastructure investment;
- managing risks associated with asset failures;
- sustainable use of physical resources; and
- continuous improvement in the immovable PPE asset management practices.

(b) Policy statement

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements, SANS 55001: Asset Management - Management Systems – Requirements, and in support of its strategic objectives, according to the following core principles:

Effective governance

The municipality shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected.

To this end, the municipality shall:

- continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- regularly review updates and amendments to the above legislation;

- review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- effectively apply legislation for the benefit of the community.

Sustainable service delivery

The municipality shall strive to provide to its customers services that are technically, environmentally and financially sustainable.

To this end, the municipality shall:

- identify a suite of levels and standards of service that conform with statutory requirements and rules for their application based on long-term affordability to the municipality;
- identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- identify current and future demand for services, and demand management strategies;
- set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure assets, where applicable in line with national targets;
- apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets;
- strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

Social and economic development

The municipality shall strive to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community.

To this end, the municipality shall:

- regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- implement changes to services in response to changing customer needs and expectations where appropriate;
- foster the appropriate use of services through the provision of clear and appropriate information;
- ensure services are managed to deliver the agreed levels and standards; and;
- promote job opportunities and promote skills development in support of the national EPWP.

Custodianship

The municipality shall strive to be a responsible custodian and guardian of the community's assets for current and future generations.

To this end, the municipality shall

- establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- establish appropriate development control measures including community information;
- cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- ensure that heritage resources are identified and protected; and
- ensure that a long-term view is taken into account in infrastructure asset management decisions.

Transparency

The municipality shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future.

To this end, the municipality shall:

- develop and maintain a culture of regular consultation with the community with regard to its management of infrastructure in support of service delivery;

- clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- avail salient information on asset management performance and planning; and
- continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

Cost-effectiveness and efficiency

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner.

To this end, the municipality shall:

- assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;
- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- establish and implement demand management plans;
- timeously renew infrastructure assets based on condition, capacity, performance, risk exposure, and cost;
- timeously dispose of infrastructure assets that are no longer in use;
- review management and delivery capacity, and procure external support as necessary;
- establish documented processes, systems and data to support effective life-cycle infrastructure asset management;

- strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

(c) Responsibilities

- Upon delegation from Council, the Municipal Manager shall establish measures to effectively drive and monitor the progress in the implementation of this policy, and to report to Council on progress made at a frequency indicated by Council.
- On adoption of the policy, and in consultation with the Director and CFO, the Municipal Manager shall determine a program for implementation of the following:
    - Develop, and update at regular intervals, an Asset Management Plan (AMP) for each service involving immovable PPE that shall assess actual and target levels and standards of service, future demand, risk, determine a lifecycle plan for a minimum 10 year planning horizon, assess financial and budget implications, and identify management practice improvement needs (3 year horizon). The AMPs will be submitted through the Municipal Manager to Council for adoption. AMPs shall be used to inform the preparation of a Comprehensive Municipal Infrastructure Plan and budgets through the IDP process. The time frame for the first time implementation of this will be determined by the MM in consultation with the CFO and Director
    - Determine grading scales for the measurement of asset condition, performance, cost-of–operation, and utilisation for that are common and applicable to all services, at a level of accuracy considered appropriate to the municipality's resources, and at intervals to be determined by the MM in consultation with the CFO and Directors.
    - Prepare, and review at intervals to be determined by the MM in consultation with the CFO and Directors, an Operations and Maintenance Strategy and Plan per sector, and submit such, through the Municipal Manager, to Council for adoption. The municipality shall engage contractors when necessary to support in the implementation of maintenance actions and adopt a system that assists in managing such maintenance.
    - Document detailed service performance measures (differentiated, where applicable for identified customer groups), and submit such, through the Municipal Manager, to

Council for adoption and inclusion in the Services Delivery and Budget Implementation Plan. The Directors shall establish a monitoring regime, and report actual performance each financial year.

- Establish procedures to ensure that legislative requirements regarding the management of immovable PPE assets, including but not limited to health and safety, and environmental protection, are documented and advised by the MM to the Directors. Directors shall address legislative needs in their strategies and plans, and shall enforce implementation.
- Prepare and review at least every 3 years thereafter, a Comprehensive Municipal Infrastructure Plan that consolidates and integrates the strategic and long term aspects of true service specific Asset Management Plans for all infrastructure in the municipality, together with summarised development scenarios and strategic matters for consideration, to be submitted through the Municipal Manager for consideration by council.
- Review the municipality's risk management framework to ensure that it is effective for the management of physical risks to infrastructure and buildings. Improvement actions shall be identified and implemented. The Directors shall report risk expense relating to their respective assets each financial year.

14 POLICY IMPLEMENTATION

Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Directors, to give effect to this policy.

ANNEXURE A: IMMOVABLE ASSET HIERARCHY

The following accounting sub-groups, asset class and asset group types shall be used at the highest level of the classification structure for immovable assets:

Table 1 - Accounting sub-groups, sub-categories and asset group types

Accounting Sub-group / Asset Category	Asset Class / Asset Sub-Category	Group / Asset Group Type
Building Property	Buildings (incl land)	Depots / workshops/stores
		Offices and precincts
	Housing (incl land)	Staff housing
		Social Housing
Community Property	Community Facilities (including land)	Care Centres
		Cemeteries / Crematoria
		Clinics
		External Facilities
		Halls and Centres
		Transfer stations
		Landfill site
		Libraries
		Markets / Stalls/LED facilities
		Parks
		Public open space
		Public ablution facilities
		Fire / Ambulance stations
		Taxi Ranks / Bus Terminals
	Sport & Recreation Facilities (incl land)	Sports Centre

Accounting Sub-group / Asset Category	Asset Class / Asset Sub-Category	Group / Asset Group Type
Infrastructure Assets	Electricity Network	Electricity Network Land
		HV Network
		LV Network
		MV Network
	Roads and Storm-water	Road Furniture
		Road Structures
		Roads
		Roads and Stormwater Network Land
		Stormwater
	Sanitation Network	Outfall sewers
		Pump Stations
		Reticulation
		Sanitation Network Land
		Toilet facilities
		Waste water treatment works (WWTW)
	Water Supply Network	Bulk Mains
		Distribution
		Pump Stations
		Reservoirs
		Water Supply Network Land
	Capital spares	Capital spares
Intangible Assets	Servitudes	Electricity Network
		Sanitation Network
		Storm-water network
		Water Network
Investment Property	Investment Property	Improved Land
		Unimproved Land

ANNEXURE B: ASSET CATEGORY AND CLASS DESCRIPTION - EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF MOVABLE ASSETS

Asset Category Description	Asset Class Description	EUL	RV
Bins & Containers	Bulk Containers	10	0%
	Refuse Bins	5 - 14	0%
Furniture & Fittings	Cabinets/Cupboards	3 - 14	0%
	Chairs	3 - 14	0%
	Sundry Furniture	3 - 14	0%
	Tables/Desks	3 - 14	0%
Motor Vehicles	Compactor	5 -10	17%
	Graders/Back Actors	5 - 20	17%
	Loader	3 - 20	17%
	Motor Vehicles	3 - 10	17%
	Tractors	3- 10	17%
	Trailers	3 - 10	17%
	Trucks/Bakkies	3 - 10	17%
Plant & Equipment	Compressors	3 - 10	0%
	Farm Equipment	3 - 10	0%
	Fire Arms	3 - 14	0%
	General Equipment	2 - 14	0%
	Laboratory Equipment	3-4	0%
	Lawn Mowers	2 - 14	0%
	Radio Equipment	3 - 14	0%
Office Equipment	Computer equipment	1 – 14	0%
Heritage	Paintings / Artworks	n/a	n/a
	Municipal Juwerly	n/a	n/a
	Other Antiquies and collections	N/A	n/a
Intangible	Computer Software	3 Yrs	0%

ANNEXURE C: ASSET AND COMPONENT TYPE - EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF IMMOVABLE ASSETS

(a) Roads and Storm-water

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
Pavements	Road surface	Bituminous (Thick)		12	0%
	Road surface	Bituminous (Medium)		9	0%
	Road surface	Bituminous (Thin)		5	0%
	Road surface	Concrete / block surface		20	0%
	Road surface	Gravel		5	0%
	Road structural layer		Access	80	30%
	Road structural layer		Arterial / Distributor	30	30%
	Road structural layer		Collector	50	30%
Earthworks	Earthworks			100	50%
Drainage	Kerb		Collector/ Access	50	0%
	Kerb		Arterial / Distributor	20	0%
	Kerb inlet			20	0%
	Sub-soil drain	Dewatering sub-soil drain		60	0%
	Channel	Lined		50	0%
	Channel	Unlined		5	0%
	Culvert			60	0%
Road furniture	Advertisement signs			7	0%
	Guard rail			15	0%
	Bill boards			7	0%
	Commuter shelter			15	0%

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
	Road marking			5	0%
	Speed hump			20	0%
	Traffic island			20	0%
	Footpath / Paving	Paved footpath / area		20	0%
	Sign - general			20	0%
	Sign - regulatory			7	0%
	Street rubbish bin			10	0%
	Traffic signal			15	0%
Road bridge	Road bridge superstructure			100	0%
	Road bridge substructure			100	0%
	Road bridge side barrier			60	0%
	Road bridge abutments			100	0%
Civil structure					
	Retaining wall			60	0%

(b) Mechanical and electrical plant

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
Mechanical equipment	Pump - water			15	0%
	Pump - sewer			15	0%
	Pump - submersible			12	0%
	Compressor	Workshop type – fixed (all)		10	0%
	Gearbox			15	0%
	Doser			15	0%
	Generator			20	0%

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
	Weigh bridge			15	0%
Electrical equipment					
	Motor			15	0%
	Telemetry			15	0%
	Control panel			30	0%
	Isolator			30	0%
	Load control receiver	Load control receiver		15	0%
	Auxiliary Equipment	Prepaid vending stations		10	0%
	Auxiliary Equipment	Prepaid vending master stations		50	0%

(c) Civil structure, metal work, pipework and communal services

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
Civil structure	RC structure	Concrete structure		50	0%
	Masonry structure			50	0%
	Earth structure			50	0%
	Earth fill dam wall			80	0%
	Tank	Galvanised steel panel		30	0%

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
	Tank	Plastic		15	0%
	Erosion protection	Rip Rap		20	0%
	Lining - landfill			50	0%
Communal standpipe	Communal standpipe - Pedestal			10	0%
	Communal standpipe - Tap			5	0%
Metal work/Civil structure	Fabricated steel	Mild steel	Mild exposure	20	0%
	Fabricated steel	Mild steel	Aggressive exposure	10	0%
	Fabricated steel	Stainless steel	Aggressive exposure	20	0%
	Fabricated steel	Stainless steel	Mild exposure	40	0%
	Fabricated steel	Galvanized steel		20	0%
Pipe-work	Pipe	uPVC		60	0%
	Pipe	Steel		80	0%
	Pipe	HDPE		80	0%
	Pipe	Clay		100	0%
	Pipe	AC		40	0%
	Pipe – sewer	Concrete		40	0%
	Pipe – Stormwater	Concrete		50	0%
	Water meter			10	0%

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
	Hydrant			20	0%
	Valve			20	0%
Mun service connection	Pipe - water		Service connection	50	0%
	Pipe - sewer		Service connection	50	0%
	Water meter			10	0%
Service connection on site	Electrical service connection			50	0%
	Pipe - water		Service connection	50	0%
	Pipe - sewer		Service connection	50	0%
Communal sanitation	Chemical toilet			10	0%

(d) Buildings

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
Building	Air conditioning	Standard installation (wall or split units)		20	0%
	Electrical installation			30	0%
	Finishes, fixtures & fittings			15	0%
	Fire protection			20	0%

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
	Lifts			30	0%
	Plumbing	standard installation		20	0%
	Security system	Security and access control		20	0%
	Floor	Surface bed, Elevated		60	0%
	Small building enclosure	Other than steel shed		50	0%
	Small building enclosure	Steel shed		20	0%
	Building Structure - Walls			60	0%
	Building Structure - Roofs	Other than sheet metal		40	0%
	Building Structure - Roofs	Sheet metal		30	0%

(e) Electrical infrastructure

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
	HV overhead line			50	0%
HV substation	HV Transformer			50	0%
	Current transformer			45	0%
	HV switchgear - breakers			45	0%
MV conductor	MV Cable			50	0%

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
	Pilot cables			50	0%
	MV overhead line			50	0%
MV Substation	MV Transformer			45	0%
	Transformer NEC			45	0%
	Batteries			3	0%
	Battery charger			10	0%
	Panel			45	0%
	MV switchgear – breakers			45	0%
	MV switchgear - isolators			45	0%
	Load control			45	0%
	Ring main unit			45	0%
MV Switchgear	MV switchgear - breakers			45	0%
	MV switchgear – isolators			45	0%
	Ring main unit			45	0%
MV transformer	Mini-sub			45	0%
	MV Transformer			45	0%
	Ring main unit			45	0%
	Pole transformer			45	0%
LV conductor	LV cable			60	0%
	Pilot cables			50	0%
	LV overhead line			45	0%
Public lighting	Street light			45	0%
	High mast			45	0%
Mun service connection	Electrical service connection			50	0%
	Electricity meter			20	0%

(f) Open spaces

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
External facilities	Carports	Shade net		7	0%
	Carports	Sheet iron roof		20	0%
	External furniture			20	0%
	External lighting	Other than streetlights		30	0%
	External lighting	Streetlights		45	0%
	Irrigation	Automatic sprinkler system		10	0%
	Landscaping			30	0%
	Perimeter protection	Wall, Concrete Palisade and Steel Palisade		30	0%
	Perimeter protection	Fence – wire		15	0%
	Footpath / Paving	Paved footpath / area		20	0%
Sports facilities	Sports field	Tennis court		15	0%
	Sports field	Other than tennis courts		30	0%
	Swimming pool			20	0%
	Stadium			50	0%

(g) Land

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
Land	Land			NA	NA
	Rail reserve			NA	NA
	Road reserve			NA	NA
Servitude	Servitude			NA	NA

(h) Investment Property

ASSET TYPE	COMPONENT TYPE	COMPONENT DESCRIPTION	COMPONENT CLASS	EUL	RV
Improved Land	Land			NA	NA
Unimproved Land	Land			NA	NA